

State and Local Government Outlays

Continue in a Strong Uptrend

A DYNAMIC element in the current economic situation is the steady and rapid growth in State and local government activities. This continues as a potent expansionary market force in the Nation's economy.

Total outlays of these governments, as measured in the national income accounts, amounted to \$57½ billion in 1961, and they are expected to advance to about \$62 billion in the current year.

According to present estimates, receipts will show a similar rise from 1961 to 1962, but expenditures will continue to exceed receipts, as they have in recent years. While the recent increases in these outlays reflect in part higher prices and wage costs, they represent mainly increases in volume associated with the continuing pressure on existing facilities and the expanded responsibilities of these governmental units.

Steady advance in purchasing

Direct purchases of goods and services constitute a much larger proportion

Table 1.—Object Breakdown of State and Local Government Purchases of Goods and Services.

[Billions of dollars]					
	1957	1958	1959	1960	1961
State and local government purchases of goods and services.....	26.9	28.9	31.6	37.2	51.4
Compensation of employees.....	18.5	21.5	21.3	25.7	28.4
Wages and salaries.....	18.1	20.0	21.3	25.6	25.6
Public education.....	8.7	9.7	10.6	11.9	12.1
Non-school.....	2.4	10.2	10.9	11.7	12.6
Supplements to wages and salaries.....	1.4	1.6	1.8	2.1	2.4
New construction.....	11.0	12.1	12.4	12.3	13.2
Highways.....	4.8	5.4	5.7	5.4	5.7
Educational.....	2.8	2.9	2.9	2.9	3.0
Hospital and institutional.....	.3	.4	.4	.3	.3
Sewer.....	.8	.8	.9	.9	.9
Water.....	.6	.6	.6	.6	.7
All other.....	1.8	2.0	2.2	2.3	2.6
Other purchases.....	6.3	7.2	7.9	9.2	10.3

Note: Data for Alaska and Hawaii included beginning 1959.

of total expenditures for States and localities than in the case of the Federal Government. State and local purchases totaled \$51½ billion last year and are expected to contribute over \$4 billion to the GNP advance in 1962. These purchases currently constitute five-sixths of all government outlays for goods and services for nondefense purposes, and represent about one-tenth of the gross national product.

State and local purchases continued to rise during the course of the 1960-1961 GNP downturn—as they had during each of the previous postwar recessions—and consequently served to help moderate the overall cyclical swing. In this respect their course has been similar to that of two other major components of the GNP aggregate: consumer expenditures for nondurable goods and for services, both of which have also displayed persistent uptrends. (The latter were reviewed last month—February Survey, p. 15.) It is noteworthy, however, that in recent years, State and local purchases have advanced at a more rapid pace than either of these two broad categories of consumer spending.

The growth in State and local government purchases has continued to outpace the population increases in recent years, and per capita expenditures have been mounting rapidly. (See chart on page 11.) Other demographic factors determining the high demand for governmental services are the differential rates of growth in various sections of the country and the higher growth rates in the age groups drawing heavily on these services, notably school children.

Outlays for education and for highways (including improvements of existing roads and streets) account for over half of the total goods and services

purchased by these governments. Health and sanitation, general administration, and civilian safety—the next three most important functions—make up most of the remainder. More than four-fifths of the direct purchases for educational purposes are made by local governments, and almost two-thirds of the highway outlays are made by States. A detailed functional breakdown of the separate State and local expenditures by type of outlay is shown for 1960 in table 4.

Table 2.—State and Local Government Receipts and Expenditures [Billions of dollars]

	1957	1958	1959	1960	1961
State government receipts.....	21.5	22.8	25.8	27.5	29.2
Taxes and non-taxes.....	15.8	16.3	18.2	19.0	21.0
Contributions for social insurance.....	1.6	1.6	1.8	2.0	2.1
Current surplus of government enterprises.....	.4	.4	.6	.8	.8
Federal grants-in-aid.....	2.0	4.2	5.2	4.8	5.0
Local government payments.....	.4	.3	.4	.4	.4
State government expenditures.....	20.4	22.9	24.2	25.4	28.7
Purchases of goods and services.....	11.9	13.4	14.4	15.4	16.7
Transfer payments to persons.....	2.9	2.7	2.8	3.0	3.2
Net interest paid.....	-.2	-.2	-.2	-.3	-.3
Interest paid.....	.4	.4	.6	.6	.6
Less: Interest received.....	.2	.6	.7	.8	.9
Payments to local governments.....	6.4	6.8	7.2	8.2	9.1
Surplus or deficit (-) on income and production.....	.7	.1	1.3	1.1	.4
Local government receipts.....	24.9	28.1	30.2	32.7	35.3
Taxes and non-taxes.....	19.4	17.5	18.0	20.1	21.4
Contributions for social insurance.....	.8	.8	.9	1.1	1.1
Current surplus of government enterprises.....	1.4	1.4	1.6	1.8	2.0
Federal grants-in-aid.....	1.0	1.2	1.4	1.6	1.6
State government payments.....	6.4	6.8	7.2	8.2	9.1
Local government expenditures.....	27.7	30.3	32.4	35.2	38.4
Purchases of goods and services.....	24.9	27.4	29.2	31.7	34.7
Transfer payments to persons.....	1.7	1.8	2.0	2.1	2.2
Net interest paid.....	-.7	-.6	-.9	1.0	1.1
Interest paid.....	1.0	1.1	1.3	1.4	1.5
Less: Interest received.....	.3	.4	.4	.4	.5
Payments to state governments.....	.4	.3	.4	.4	.4
Surplus or deficit (-) on income and production.....	-1.7	-2.2	-2.2	-2.5	-2.1

1. The treatment of this item differs from that in the regularly published national income accounts in that it is classified here as a receipt rather than as a negative expenditure.

Note: Data for Alaska and Hawaii included beginning 1960.

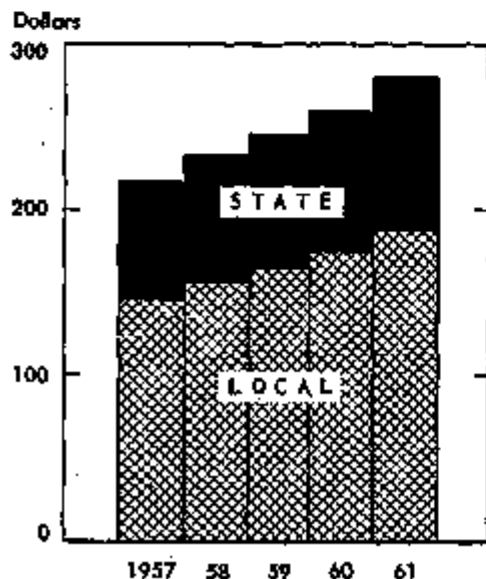
Employment up sharply

Viewed in terms of objects purchased, as in table 1, more than half of the total outlay for goods and services go for payrolls. The number of full-time equivalent employees rose to 5½ million in 1961, about one-quarter million higher than in the previous year, and almost 900,000 higher than the number employed in 1957. The rise has been most rapid in employment in schools, which accounts for somewhat less than half of the total. Annual earnings of both school and nonschool employees have also climbed steadily, averaging more than 4 percent a year in the 1957-61 period, and adding substantially to the total payrolls. The increase from 1960 to 1961 represented almost one-fourth of the change in the total wage and salary component of the national income.

One-fourth of the total outlays for goods and services is expended for new construction, which rose to \$13 billion last year, after hovering around \$12 to \$12½ billion in the 3 preceding years, and some further increase is expected in the current year. While showing some cyclical tendencies, the fluctuations have been moderate as compared with those in private construction activity. All other purchases from business, which cover an extremely wide array of commodities ranging from

PER CAPITA PURCHASES BY STATE AND LOCAL GOVERNMENTS

Outlays increasing more rapidly than population

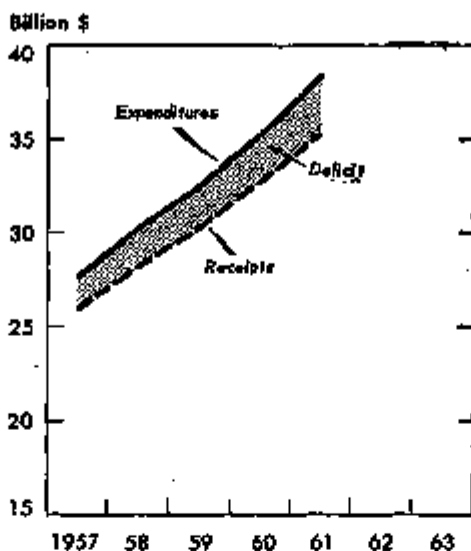


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STATE AND LOCAL FISCAL POSITIONS COMPARED**LOCAL GOVERNMENTS**

Expenditures Continue Above Receipts

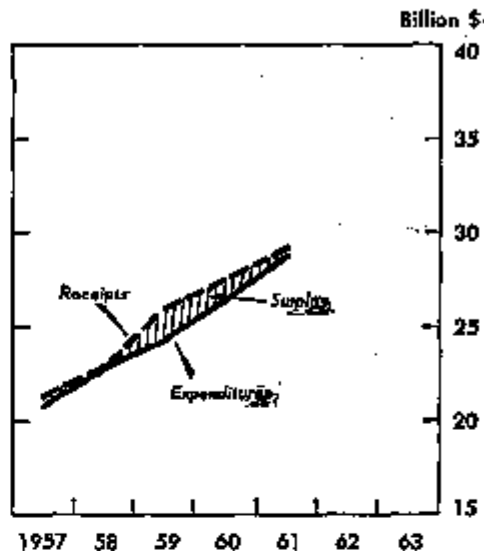


Notes: National income and product basis.

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STATE GOVERNMENTS

Surplus Mainly Due To Operations of Pension Trust Funds



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paper clips to school buses, have shown a steady upward trend roughly similar to payrolls.

Transfer payments total \$5½ billion

Although goods and services represent by far the largest share of State and local government expenditures, transfer payments and net interest payments are also important items in their budgets. Transfer payments by these governments have been increasing by more than \$½ billion a year and amounted to \$5½ billion in 1961. Disbursements to the aged, to dependent children, and to other public welfare recipients comprise about two-thirds of total transfer payments. These outlays have grown with increases in the scope of social security programs, the numbers requiring assistance, and with cost-of-living increases in average benefit payments. Most of the remaining payments represent retirement pensions for State and local government employees which have risen with the expansion in the number of beneficiaries and increases in average annuities.

State and local expenditures for interest charges are recorded on a net basis in the national income and product accounts. However, on a gross basis these governments paid out over \$2 billion for interest charges on their

outstanding debt in 1961, while they received almost \$1½ billion of interest income from investments in government and private securities, the major portion of which is held by their pension and other trust funds.

In examining State and local government expenditures separately, as in table—, it is also necessary to take into account the payments made from one level of government to the other; these intergovernmental payments cancel when the two areas are consolidated. As can be seen from the table, the most important of these flows is that from States to localities. These payments constitute more than 30 percent of the total expenditures of State governments, and play a major role in local government financing.

Tax revenue lags outlays

The major sources of revenue for States and localities are shown in tables 2 and 3. Receipts have moved upward with the steady expansion of expenditures, but the pattern of revenue sources has shown little change over the past several years. With expenditures increasing by 40 percent over the 1957-61 period, these governments have been making strenuous efforts to expand their receipts from tax sources.

Table 3.—Distribution of State and Local Government Taxes and Nontaxes

	1957	1958	1959	1960	1961	1957	1958	1959	1960	1961
	Billions of dollars					Percent				
States										
Total.....	15.9	16.3	18.2	19.3	21.0	100.0	100.0	100.0	100.0	100.0
Sales.....	7.6	7.7	8.6	9.5	9.9	47.5	47.1	47.0	47.3	47.0
Excise.....	2.6	2.6	3.1	3.5	3.7	16.1	16.0	17.1	17.4	17.8
Motor vehicle licenses.....	1.4	1.4	1.5	1.6	1.7	8.8	8.8	8.8	8.1	8.2
Property.....	.6	.6	.6	.6	.7	3.2	3.4	3.2	3.2	3.2
Death and gift.....	.3	.4	.4	.4	.5	2.2	2.1	2.1	2.2	2.3
Other taxes.....	2.5	2.5	2.8	2.9	2.0	15.4	15.4	15.1	14.5	14.4
Nontaxes.....	1.1	1.2	1.3	1.4	1.5	6.8	7.2	7.1	6.8	7.0
Local governments										
Total.....	14.4	17.3	19.0	20.1	21.4	100.0	100.0	100.0	100.0	100.0
Property.....	12.4	13.5	14.4	15.2	16.2	75.5	76.6	75.8	75.7	75.4
Sales.....	1.0	1.1	1.2	1.2	1.2	6.3	6.1	6.0	5.8	5.8
Income.....	.2	.2	.2	.2	.2	1.2	1.2	1.2	1.3	1.5
All other taxes.....	.7	.7	.7	.8	.9	4.1	3.7	3.9	4.1	4.2
Nontaxes.....	2.1	2.3	2.5	2.7	2.8	12.9	13.1	13.1	13.2	13.5

Note: Data for Alaska and Hawaii included beginning 1960.

Table 4.—State and Local Expenditures by Type of Function, 1960

	State					Local		
	Total	Pay- ments to local governments	For own purpose			Total	Purchases of goods and services	Transfer payments and net interest paid
			Total	Purchases of goods and services	Transfer payments and net interest paid			
Total.....	26,371	8,233	18,138	15,426	2,713	435,195	31,731	3,871
General government.....	2,435	9	2,426	1,897	529	4,721	3,164	1,557
General administration.....	688	0	688	688	0	1,497	1,497	0
General property and records manage- ment.....	118	0	118	118	0	471	471	0
General personnel management and em- ployment costs.....	1,750	0	1,750	883	867	1,063	1,072	591
Net interest paid.....	268	0	268	0	268	268	0	268
Other.....	117	0	117	117	0	114	114	0
Health, education, and welfare.....	14,343	5,939	8,404	6,426	1,978	23,368	21,865	1,494
Public health and sanitation.....	2,118	128	1,990	1,982	8	3,082	3,080	2
Education.....	8,190	5,055	3,135	3,045	90	14,607	14,601	6
Elementary and secondary.....	710	na	710	710	0	14,086	14,086	0
Higher.....	28	na	28	28	0	819	819	0
Other.....	na	na	390	390	0	210	210	0
Public assistance and relief.....	3,009	784	2,225	2,225	0	2,109	2,109	0
Civilian safety.....	697	14	683	683	0	2,371	2,370	1
Police.....	na	na	267	267	0	1,036	1,036	0
Fire.....	na	na	420	420	0	888	888	0
Prisons.....	na	na	420	420	0	277	277	0
Labor and manpower.....	330	0	330	330	0	1	1	0
Veterans' services and benefits.....	195	0	195	195	0	5,585	5,585	0
Commerce and housing.....	7,168	1,388	5,780	5,780	0	268	268	0
Regulation of commerce and finance.....	273	0	273	273	0	3,544	3,544	0
Transportation.....	0,869	1,342	5,017	5,017	0	2,339	2,339	0
Highways.....	6,782	1,223	5,559	5,559	0	335	335	0
Water and air.....	77	17	60	60	0	277	277	0
Housing and community redevelopment.....	28	25	3	3	0	1,532	1,532	0
Public utilities.....	na	na	na	na	na	100	100	0
Transit.....	na	na	na	na	na	505	505	0
Electricity.....	na	na	na	na	na	918	918	0
Water and gas.....	na	na	na	na	na	47	47	0
Other.....	3	0	3	3	0	148	148	0
Conservation of agricultural resources.....	438	0	438	438	0	281	281	0
Conservation and recreational use of natural resources.....	648	20	628	628	0	22	22	0
National defense and atomic energy.....	346	0	346	346	0	1,353	1,353	0
Other unallocated.....	1,006	1,006	0	0	0	0	0	0

1. Includes local payments to State governments in the amount of \$383 million which cannot be allocated by function.
na—not available.

Note: Data for Alaska and Hawaii are included.

Income taxes, for example, have risen much more rapidly than total personal income; rates have been increased in some cases, a greater number of jurisdictions have adopted the more efficient tax-withholding collection procedure, and there has been some increase in the number of units using this tax. Similarly, sales taxes have outstripped the rise in retail sales. These are the two largest tax sources for States, but account for only 7 percent of city and other local taxes in 1961. Property taxes—the mainstay of local financing—have also increased markedly with the steady increase in new construction, more frequent reassessments, and increases in rates.

Despite their efforts to increase tax revenues, the advance in State and local tax receipts has been far less than the advance in total expenditures, and these governments continue to rely heavily on intergovernmental payments, including Federal grants, and on borrowing. Federal grants-in-aid to State Governments amounted to \$5 billion in 1961 and covered about one-fourth of their total direct outlays (i.e., total expenditures less payments to local governments). These grants are mainly for highway construction and public assistance. Highway aid received a sharp fillip after the initiation of the interstate highway program in 1956, and reached a peak in 1959. These grants declined about \$½ billion in 1960, but have moved up again in 1961 and are scheduled to advance further in the current year.

State payments to their political subdivisions are greatly in excess of the Federal grants received by the States. Such payments to local governments during 1961, representing both financial assistance and a sharing of specific revenues—the two cannot be separated—are estimated at \$9 billion. These funds cover a very substantial portion of the local outlays for education, public assistance, and road and street work. In addition, local governments received over \$1½ billion in Federal grants, including Federal funds channeled through States, which are used mainly for public assistance. Together, State payments and Federal

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with Western Europe was in part in transactions on goods and services, in part also in private capital movements.

For 1961 as a whole, Europe seems

to have received over \$3 billion from other than recorded transactions with the United States, compared with about \$2 billion in 1960.

Table 4.—U.S. Short-Term Private Capital, 1960 and 1961, by Country and Type

(In millions of dollars)

	Amount outstanding, year ends			1960				1961			
	1959	1960	1961	Changes ² , quarterly (decreases (-))							
				I	II	III	IV	I	II	III	IV
Total reported by U.S. banks ¹	2,338	3,484	4,667	165	37	417	432	236	169	5	853
Major financial centers, total.....	868	971	1,143	-84	110	165	85	84	35	-47	139
United Kingdom.....	121	245	181	-9	00	83	-19	-78	-2	20	-4
E.C. and Switzerland.....	273	305	420	-49	24	5	62	54	12	-44	83
Canada.....	272	421	542	-28	20	97	68	68	28	-23	61
By type:											
Commercial and financial claims payable in dollars.....	468	580	670	-74	46	63	40	19	70	-6	16
Foreign currency deposits and claims.....	178	403	473	-10	70	122	45	35	-41	-41	115
Other countries, total.....	1,932	2,633	3,624	269	-82	232	347	382	124	52	423
Japan.....	334	606	1,443	96	77	103	140	263	208	19	167
Latin American Republics.....	1,147	1,328	1,464	-160	30	202	202	24	-120	74	167
Others.....	461	480	626	8	-9	30	-1	13	50	-38	109
By type:											
Commercial and financial claims payable in dollars.....	1,019	2,580	3,486	188	-85	103	232	317	126	47	398
Foreign currency deposits and claims.....	18	54	68	1	3	37	-5	-16	-1	52	25
Total reported by non-financial concerns.....	730	1,131	1,476	-16	122	64	149	269	81	46	na
Major financial centers.....	288	614	863	-2	111	63	121	126	36	-20	na
United Kingdom.....	53	273	170	20	74	13	107	6	-64	-67	na
E.C. and Switzerland.....	134	155	203	-16	2	3	19	10	46	-30	na
Canada.....	101	187	490	-12	35	41	-5	110	94	58	na
Claims payable in dollars.....	220	396	682	-18	50	55	64	73	110	-10	na
Foreign currency deposits and claims.....	68	316	204	16	61	-2	67	61	-26	-13	na
Other countries, total.....	443	517	612	-12	11	11	35	-77	4	78	na
Claims payable in dollars.....	387	482	581	-10	19	11	30	-10	-8	55	na
Foreign currency deposits and claims.....	55	55	81	-3	-8	5	-1	4	20	na

na Not available.

1. Excludes Exchange Stabilization Fund holdings.

2. Changes adjusted for variations in coverage.

3. Excludes \$370 million held pending direct investment.

4. As of Sept. 30.

Automobile Purchases

(Continued from p. 17)

those purchases involving business use. Then, as a basis for allocating each such purchase, the proportion of total mileage that was for business purposes was requested. For each purchase involving business use, moreover, it was asked whether or not any of the expenses of the car were met out of business funds or covered by a mileage or car allowance; this information made it possible to rule out unreimbursed employees from the business portion. If a car was traded or sold in connection with the purchase reported in the survey year, it was ascertained further in what year the traded or sold car had been bought, and what make and year model; these purchases in the survey year were also taken into account. Finally, any other car disposed of—sold, given away, or scrapped—during the survey year was reported, with its make, year model, and the amount realized, if any, from its disposal, and included in the estimates.

The Plant and Equipment Survey of the Securities and Exchange Commission and the Office of Business Economics was expanded to include a net outlay inquiry for 1957 and again for 1958 in order to obtain information on car expenditures by business firms. There may be a very limited amount of duplication between the F.B.I. Survey and the

SEC-OBE Survey in respect to cars of sole proprietorship business firms registered in the proprietors' names. Automobile rental and leasing companies were eliminated from the remains of the SEC-OBE Survey, because it was deemed desirable to cover the car outlays of this rapidly growing industry by data obtained in the Business Census of 1959; the necessary inquiries on the numbers and values of cars purchased, traded, and sold were included by the Bureau of the Census, and sample data from this inquiry form the basis for the estimate for this industry.

In order to round out the coverage where that by the Plant and Equipment Survey was considered meager or lacking, estimates were developed for the finance, insurance, and real estate industries. Data on car purchases in these industries from the Life of Depreciable Assets tabulations of the Internal Revenue Service for 1959, were raised by depreciation to the total industry level and carried back to 1957 and 1958 on the basis of depreciation data. Estimates for nonprofit institutions were developed by relating depreciation to car purchases in the finance, insurance, and real estate industries. Table 5 presents the results of the surveys together with these supplemental estimates.

It may be noted that while the net outlay surveys and the National Income Division estimates differ as to the total car expenditures in each year, the totals are almost exactly the same for the 2 years together. The business proportion in both estimates is very close.

State and Local Government Outlays

(Continued from p. 13)

grants finance more than a quarter of all local government expenditures.

Investment outlays spur borrowing

Notwithstanding the increases in taxes, intergovernmental payments, and other receipts—social insurance contributions and current surplus from governmental commercial enterprises—State and local governments are steadily incurring deficits and their debt has been increasing. Most of this borrowing is for investment outlays for construction and equipment, which are in large measure debt-financed. School construction, and to a lesser extent, water and sewer systems, and road and bridge construction, have loomed largest in these borrowing programs.

Total debt increased by \$5 billion in 1961 as it had in each of the preceding several years. The amount of debt outstanding at midyear was \$72½ billion—about three-fourths of which represented local government obligations. In appraising the change in indebtedness, it may be noted that although the proportion of outstanding State and local government debt to GNP has risen steadily over the post-war years, it is still well below the ratios observed for the pre-World War II period.

The deficit shown in the accompanying tables is not equivalent to the change in outstanding debt mainly because the receipts and expenditures on income and product account include the pension and other trust fund transactions, and exclude changes in financial assets and land transactions. Pension fund surpluses are largely responsible for the overall surplus on income and product account that is shown for State governments.